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SPOONER

MINES AND OILS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED
JUNE 30th 1976

SPOONER MINES AND OILS LIMITED

Head Office: Suite 916
111 Richmond Street West
Toronto, Ontario M5H 2G4

Calgary Office P.O. Box 7307
Mailing Address: Postal Station "E"
Calgary, Alberta T3C 0K0

Directors: F. D. Corman
V. N. Harbinson
A. G. Matthew
E. F. Merringer
R. A. Shaw
D. C. Vickers

Officers: V. N. Harbinson
Chairman of the Board & President
F. D. Corman
Vice-President
D. C. Vickers
Secretary
A. G. Matthew
Treasurer
R. A. Shaw
Assistant Secretary
S. D. Epp
Assistant Treasurer

Transfer Agent and Registrar: Crown Trust Company
Toronto, Ontario

Legal Counsel: Manning, Bruce, Macdonald & Macintosh
Toronto, Ontario

Auditors: Thorne Riddell & Co.
Toronto, Ontario

Share Listing: The Toronto Stock Exchange

Directors' Report

TO THE SHAREHOLDERS:

Your Directors are pleased to present the Annual Report of the Company which includes the financial statements and Auditors' Report for the year ended June 30, 1976.

MINING

Consolidated Durham Mines & Resources Limited:

Spooner Mines and Oils Limited manages the overall affairs of Durham's antimony mine, situated in the Province of New Brunswick, under a contractual agreement whereby Spooner receives 15% of the net income after taxes from the Durham operation. It is Spooner's intent to exercise its option to extend its contract to January 1, 1982. Further details of this agreement are referred to in the notes which accompany the financial statements.

Highlights of the Durham operation for the year ended June 30, 1976 are as follows:

Revenue from production of antimony concentrates was \$5,372,195. Net earnings after deferred mining taxes on income of \$407,000 amounted to \$578,523 for the year or approximately 12 cents per share.

Ore reserves now stand at 459,927 tons of drill indicated and proven ore grading 4.58% antimony as contrasted to the 593,795 tons of 5.10% reported

as at the end of July 1975. During the year 93,270 short tons of ore were mined. An extensive exploration programme consisting of line cutting and geophysical and geochemical surveys has commenced which will cover all the property held by Durham at Lake George.

Operations for the year were free of major interruptions and between ninety-five and one hundred persons were employed. Production for the year amounted to 4,361 metric tons of concentrate grading 65.97% antimony.

In September 1976 Durham initiated a dividend payment in the amount of 5 cents per share. It is expected that an equivalent dividend will be paid in the second half of Durham's financial year which ends on June 30th.

NBU Mines Limited

Spooner holds 145,800 shares of NBU Mines Limited. NBU directly and indirectly owns a 33% interest in a base metal deposit in the Sturgeon Lake area of Northwestern Ontario. In February 1975 the mine was officially placed on stream with a rated capacity of 1,200 tons per day. Open pittable reserves at that time were calculated at 2,172,000 tons having an average dilute grade of 2.8% copper, 10.19% zinc, 1.42% lead, 5.82 ounces silver and .021

Directors' Report (continued)

ounces gold per ton. The above figures exclude ore which may be mined at a later date by underground methods. Falconbridge Copper Limited is the operator.

PETROLEUM AND MINING

The Company retains its holdings in various areas of Western Canada. A part of its holdings in the Canadian Arctic have been reduced as a result of unsuccessful drilling by Panarctic Oils Limited in certain areas. The relinquishing of these holdings was the decision of the Consortium. Spooner's Arctic interest now comprises 0.73805% in approximately 4,000,000 acres situated on Prince of Wales, Bathurst and Ellef Ringnes Islands. The Company retains its mining interest in Ungava Bay, Quebec, which is under farm-out to Imperial Oil Enterprises (Imperial Oil). Spooner's mining interests in the U.S.A. have been returned to the original vendors, and the amounts spent thereon in former years have been written off in the year under review.

FINANCIAL

Net income for the year prior to the Company writing off all its U.S.A. holdings which had accumulated expenditures in excess of \$400,000 amounted to \$146,000 as compared to \$187,000 in the prior year. Working capital at June 30 was \$295,000 as

compared to \$178,000 in the prior year. This figure excludes Spooner's shareholdings in Consolidated Durham Mines & Resources Limited and NBU Mines Limited which at June 30th had a combined market value of \$711,000.

An indirect interest is still held in certain applications and permits in Greenland.

Net income for Spooner's first quarter ended September 30, 1976 amounted to \$91,000 as compared to a loss of \$1,000 in the 1975 corresponding quarter. This increase was derived from all sectors of Spooner's operations including initial dividend income from Durham.

Working capital also increased at September 30th to \$337,000 exclusive of negotiable securities.

Management is confident that with your continuing support, Spooner Mines and Oils Limited will achieve and enhance its objectives in the natural resource field.

On behalf of the Board,

V. N. HARBINSON,
Chairman of the Board and President

Toronto, Canada
December 3, 1976

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements – year ended June 30, 1976

1. Interest in and advances to other companies

	1976	1975
(a) Consolidated Durham Mines & Resources Limited*		
594,125 shares (390,625 shares in 1975) at cost (quoted market value at June 30, 1976, \$368,358).....	\$232,110	\$125,000
Shares in NBU Mines Limited		
43,740 escrow shares (released from escrow on August 4, 1976).....		
102,060 shares (112,010 shares in 1975) at cost (quoted market value at June 30, 1976, \$239,841).....	19,009	20,306
Shares in New Quebec Mining and Exploration Limited		
447,000 shares, at cost less \$7,000 forfeited on option to purchase....	366,488	366,488
480,000 escrow shares, at nominal value.....	1	1
Other shares, at cost or less.....	8,586	8,586
	<u>\$626,194</u>	<u>\$520,381</u>

*Because of the large number of shares held in Consolidated Durham Mines & Resources Limited, the amount that may be realized on disposal of these shares may be more or less than the quoted market value.

- (b) Under terms of an agreement dated April 5, 1973, the company was granted an option to purchase 306,000 shares of Canada Geothermal Oil Ltd. at \$1.03 per share at various dates ending on September 23, 1976. At June 30, 1976, the balance of 29,400 shares under option for the period September 24, 1975 to September 23, 1976 remained to be exercised.

Subsequent to June 30, 1976 this option was allowed to lapse.

2. Oil and gas interests

	1976	1975
Oil and gas leases, at cost.....	\$ 32,962	\$ 41,161
Development expenditures deferred.....	124,646	124,595
Production equipment, at cost.....	82,379	80,469
	239,987	246,225
Less depletion and accumulated depreciation.....	198,437	195,461
	41,550	50,764
Royalty interest, at cost less depletion.....	2,137	2,627
Participation in Arctic Oil exploration, at cost.....	49,256	49,256
	<u>\$ 92,943</u>	<u>\$102,647</u>

Where oil and gas reserve figures are available, depletion has been provided on the unit of production method at rates calculated to amortize the lease costs and development expenditures in the proportion production bears to estimated reserves of oil and gas. Where reserve figures are not available, amortization has been determined arbitrarily.

Unproductive oil and gas lease costs and applicable deferred development expenditures are written off when it is determined that the lease area is of no further interest to the company.

3. Mining claims

Ungava Bay, Province of Quebec (103 claims).....	<u>\$79,000</u>
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Under an agreement dated February 1, 1970 Imperial Oil Enterprises (Imperial Oil) agreed to undertake an exploration program on this property. Imperial Oil has spent \$478,957 and thereby has earned a 75% interest in the property now under an exploration permit.

Notes to Financial Statements – year ended June 30, 1976 (continued)

If requested, Spooner is to pay its proportionate share of expenditures in excess of \$400,000 or be abated by 1% for each \$10,000 of non-participation until it reaches a minimum of 10%. The abated interest under certain circumstances is recoverable by Spooner.

To date no request for payment has been received.

4. Capital stock

Authorized and issued

On December 29, 1975 Supplementary Letters Patent were granted and an additional 1,500,000 shares were authorized. During the year, 750,000 shares were issued through a private placement for a cash consideration of \$150,000.

Options

- (a) At June 30, 1976 employees held options on 5,000 shares at \$1.25 per share expiring on June 24, 1980.
- (b) In conjunction with the private placement of 750,000 shares an option was granted on 250,000 shares at 20¢ per share exercisable on or before November 14, 1976.

5. Income Taxes

No provision for income taxes is required due to the application of a portion of exploration and development expenditures deductible under the Income Tax Act.

The company has costs of oil and gas interests, mining exploration expenditures and depreciation available for tax purposes in future years in excess of the total of costs and expenditures deferred in the accounts at June 30, 1976 of approximately \$1,174,000.

6. Recovery of costs

At June 30, 1976 the cost of participating in oil and gas interests amounting to \$92,943 has been deferred with the intention that it should be amortized along with the costs of mining claims by charges against income from future oil and mining operations. The recovery of these costs is dependent, therefore, upon the obtaining of adequate financing and the development of economic oil and mining operations.

7. Deferred exploration – Southern Pacific Project

During the year the leases and mining claims held by the company with respect to the Southern Pacific Project were quitclaimed and the deferred expenditures associated with this project have been written off.

8. Management contract

Under an agreement dated July 8, 1970 with respect to an antimony property at Lake George, New Brunswick, Spooner is to provide operating management, after the commencement of production, at cost plus 15% of net profits, as defined, from the operations for a period of five years from January 1, 1972, renewable for a further five years at Spooner's option.

9. Contingent liabilities

Actions were commenced in the Supreme Court of Ontario on September 8, 1972 and April 30, 1973 by two former employees of the company. The company is defending both suits and, in the opinion of the company's counsel, it has good defences thereto.

SPOONER MINES AND OILS LIMITED

(Incorporated under the laws of Canada)

Balance Sheet as at June 30, 1976

ASSETS		
	1976	1975
Current assets		
Cash.....	\$ 170,982	\$ 32,503
Accounts receivable.....	160,231	227,953
Marketable securities, at cost (quoted market value \$7,913).....		8,987
Deposits.....	1,000	1,000
	<u>332,213</u>	<u>270,443</u>
Interest in and advances to other companies (note 1).....	626,194	520,381
Oil and gas interests (notes 2 and 6).....	<u>92,943</u>	<u>102,647</u>
Other assets and deferred expenditures		
Mining claims (notes 3 and 6).....	79,000	79,000
Exploration expenditures deferred (notes 6 and 7).....		319,519
Office equipment and vehicles, at cost less accumulated depreciation.....	6,830	1,850
	<u>85,830</u>	<u>400,369</u>
	<u>\$1,137,180</u>	<u>\$1,293,840</u>

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities.....	\$ 36,854	\$ 92,942

SHAREHOLDERS' EQUITY

Capital stock (note 4)		
Authorized – 10,000,000 shares without par value (1975, 8,500,000 shares)		
Issued – 8,764,788 shares (1975, 8,014,788 shares).....	4,200,059	4,050,059
Deficit.....	<u>3,099,733</u>	<u>2,849,161</u>
	<u>1,100,326</u>	<u>1,200,898</u>
	<u>\$1,137,180</u>	<u>\$1,293,840</u>

Contingent liabilities (note 9)

Approved by the Board

V. N. HARBINSON, Director

A. G. MATTHEW, Director

SPOONER MINES AND OILS LIMITED

Statement of Income

	Year ended June 30,	
	1976	1975
Revenue		
Management fees (net) (note 8).....	\$ 120,100	\$ 157,000
Profit from oil and gas operations (gross revenue \$71,336, 1975, \$57,411)....	22,973	19,048
Interest earned.....	2,644	11,394
Income before undernoted items.....	145,717	187,442
Exploration and administrative expenditures written off.....	407,744	94,717
Unproductive oil and gas lease costs, development expenditures and production equipment written off.....	8,243	131
Loss on sale of equipment.....		441
	415,987	95,289
Less profit on sale of shares in other companies.....	19,698	
	396,289	95,289
Net income (loss).....	\$ (250,572)	\$ 92,153
Earnings (loss) per share.....	\$ (0.031)	\$ 0.011

Statement of Deficit

	Year ended June 30,	
	1976	1975
Deficit at beginning of year.....	\$2,849,161	\$2,941,314
Net income (loss).....	(250,572)	92,153
Deficit at end of year.....	<u>\$3,099,733</u>	<u>\$2,849,161</u>

Statement of Changes in Financial Position

	Year ended June 30,	
	1976	1975
Working capital derived from		
Income before undernoted items as shown on statement of income.....	\$ 145,717	\$ 187,442
Add depreciation and depletion not requiring current outlay of working capital.....	3,466	3,399
	149,183	190,841
Decrease in advances to other companies.....		13,456
Issue of shares of capital stock.....	150,000	
Proceeds from sale of shares in other companies.....	22,286	
	321,469	204,297
Working capital applied to		
Oil and gas interests.....	2,004	957
Office equipment and vehicles.....	6,920	
Interest in and advances to other companies.....	107,110	20,272
Exploration and administrative expenditures less depreciation of \$1,939 (1975, \$793).....	87,577	101,284
	203,611	122,513
Increase in working capital.....	117,858	81,784
Working capital at beginning of year.....	177,501	95,717
Working capital at end of year.....	<u>\$ 295,359</u>	<u>\$ 177,501</u>

SPOONER MINES AND OILS LIMITED

Notes to Financial Statements – year ended June 30, 1976 (continued)

10. Other statutory information

	1976	1975
Number of directors.....	6	6
Aggregate remuneration of directors as directors.....	\$ 2,900	\$ 1,100
Number of officers.....	6	6
Aggregate remuneration of officers as officers, including consulting fees.....	\$ 9,350	\$17,500
Number of officers who are also directors.....	5	5
Depreciation and depletion.....	\$ 5,405	\$ 4,192

Auditors' Report

To the Shareholders of
Spooner Mines and Oils Limited

We have examined the balance sheet of Spooner Mines and Oils Limited as at June 30, 1976 and the statements of income, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at June 30, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
October 6, 1976

THORNE RIDDELL & Co.
Chartered Accountants

